

**WASHINGTON COUNTY
WATER CONSERVANCY DISTRICT**
BASIC FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION

WITH INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 2005

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT

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HAFEN
BUCKNER
EVERETT
& GRAFF, PC
CERTIFIED PUBLIC
ACCOUNTANTS

Board of Trustees
Washington County Water
Conservancy District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Washington County Water Conservancy District as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Washington County Water Conservancy District, as of December 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America.

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We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The individual fund budget to actual statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Washington County Water Conservancy District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Hafen, Buckner, Everett & Graff, PC

HAFEN, BUCKNER, EVERETT & GRAFF, PC

May 23, 2006

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT

Management's Discussion and Analysis

This section of Washington County Water Conservancy District's report presents management's discussion and analysis of the District's financial performance during the year ending December 31, 2005. Please read it in conjunction with the transmittal letter and the District's financial statements, which follow this section.

Financial Highlights

- The District's assets exceeded liabilities by \$57.2 million at the close of the most recent fiscal year.
- During the year, the District's total net assets increased by \$5.9 million.
- The District continued with various capital projects during the year. The Regional Pipeline, which connects the Quail Creek/Sand Hollow system to the Western part of the county and which will be capable of moving water from Virgin to Ivins, was completed in 2005. Improvements continued at Kolob Reservoir with road improvements, boat ramp improvements, and the beginning of construction of the Kolob/Crystal Creek Pipeline. The District continued to work with State Parks and Recreation to build campgrounds and recreational facilities at Sand Hollow. The rebuilding of the Santa Clara Pipeline, which was damaged during the January 2005 floods, was also completed in 2005. This pipeline replaces existing diversions and open delivery systems along the Santa Clara River.
- The District continues to work with state resource agencies regarding native fish populations in the Virgin River. The Virgin River Resource Management and Recovery Program continues to work on finding ways to provide habitat for native fish.
- The District has continued to work with the cities of St. George, Washington, Santa Clara and Ivins regarding cooperation on regionalization of water resources. The District has traditionally relied upon "take-or-pay" contracts with the cities to secure financing for water projects. With a regional water supply structure, new water development undertaken to meet new growth needs will be paid for by impact fees, property taxes and a surcharge based on equivalent residential units.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business. Governmental activities generally are financed through taxes, intergovernmental revenues and other non exchange revenues.

The *statement of net assets* presents information on all of the assets and liabilities of the District, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the District changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The District owns real property which is shown on the books at cost. Approximately 1000 - 1200 acres may eventually be declared surplus property and sold a market value. The current fair market value for this property is \$50,000 to \$125,000 per acre. It is anticipated that the value will continue to increase over time. These values are not reflected in the statement of net assets.

Fund financial statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and proprietary funds.

- **Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements.
- Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the special revenue fund and the capital projects fund, each of which are considered to be major funds.

General Fund. The General Fund is the operating fund of the District. Revenues from tax collections are received into this fund. Expenditures include administrative costs. Fund transfers are made from the General Fund to the other funds of the District.

Special Revenue Fund. The Special Revenue Fund receives Federal and State money's used for the maintenance and operation of the Virgin River Resource Management and Recovery Program (VRRMRP). The money in the fund is 50% Federal money and 50% State money. The District's portion of maintenance and operation of the VRRMRP is accounted for in the proprietary fund.

The District adopts an annual appropriated budget for Governmental and Enterprise Funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. There is no significant variation between the original and final budgets.

- **Proprietary funds.** The District uses an enterprise fund to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$57.2 million at the close of the most recent fiscal year.

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT Net Assets

	Governmental Activities 2005	Governmental Activities 2004
Current and other assets	\$16,614,784	\$14,677,741
Capital assets	<u>40,324,230</u>	<u>38,978,175</u>
Total assets	<u>56,939,014</u>	<u>53,655,916</u>
Current and other liabilities	3,725,158	767,280
Long-term liabilities outstanding	22,317,878	22,304,054
Deferred revenue	<u>3,838,097</u>	<u>4,566,516</u>
Total liabilities	<u>29,881,133</u>	<u>27,637,850</u>
Net assets:		
Invested in capital assets, net of related debt	19,352,165	16,674,121
Restricted	4,171,075	5,793,346
Unrestricted	<u>3,534,641</u>	<u>3,550,599</u>
Total net assets	<u>\$27,057,881</u>	<u>\$26,018,066</u>

Current assets are higher in 2005 as compared to 2004 because receivables from property taxes increased and money was due from NRCS for construction of the St. George and Washington Canal Company pipeline project which the Washington County Water Conservancy District is overseeing. Capital assets increased because of various construction projects. Long-term debt decreased as outstanding debt was paid.

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT Net Assets

	Business-type Activities 2005	Business-type Activities 2004
Current and other assets	\$9,710,435	\$8,699,289
Capital assets	<u>76,030,924</u>	<u>74,485,014</u>
Total assets	<u>85,741,359</u>	<u>83,184,303</u>
Current and other liabilities	540,660	563,109
Long-term liabilities outstanding	50,481,809	52,576,332
Deferred revenue	<u>4,596,525</u>	<u>4,736,090</u>
Total liabilities	<u>\$55,618,994</u>	<u>\$57,875,531</u>

Net assets:

Invested in capital assets, net of related debt	\$25,574,115	\$21,933,682
Restricted	1,351,919	1,580,363
Unrestricted	<u>3,196,332</u>	<u>1,794,727</u>
Total net assets	<u>\$30,122,366</u>	<u>\$25,308,772</u>

Capital assets are higher in 2005 as compared to 2004 because of continued improvements and construction on projects in the Proprietary Fund. Debt payments decreased the debt balance.

- The largest portion of the District's net assets (78.6 %) reflects its investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment, net of accumulated depreciation), less any related debt (general obligation bonds payable and obligations under capital leases less unspent bond proceeds) used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to Washington County residents; consequently, these assets are *not* available for future spending, unless the property is declared as surplus and then sold at market value. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.
- An additional portion of the District's net assets (9.6%) represents resources that are subject to external restrictions on how they may be used. The majority of the restricted balance is for capital projects.
- The remaining balance of *unrestricted net assets* (11.8%) may be used to meet the District's obligations to county residents, employees, and creditors and to honor next year's budget.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets, both for government as a whole, as well as for its separate governmental and business-type activities. The District's net assets increased to \$57.2 million during the current year compared to \$51.3 million last year.

Governmental activities. This section will discuss and analyze significant differences between years.

Financial Analysis of the District's Funds
Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
Revenues		
Charges for services	\$68,566	\$29,169
Operating grants and contributions	2,124,605	557,626
Capital grants and contributions	5,287,244	5,204,058
General Revenues:		
Property taxes	7,787,846	5,534,339
Fees in lieu of taxes	618,385	566,755
Other	1,748	
Interest earnings	432,435	224,320
Operating transfers	(2,904,255)	(2,896,850)
Transfers of Capital Assets	<u>(3,695,743)</u>	<u>(3,273,169)</u>
Total Revenues and Transfers	<u>9,720,831</u>	<u>5,946,248</u>
Expenses:		
General government	7,710,715	1,421,194
Interest on long-term debt	<u>970,301</u>	<u>743,862</u>
Total Expenses	<u>8,681,016</u>	<u>2,165,056</u>
Change in Net Assets	<u>1,039,815</u>	<u>3,781,192</u>
Net Assets at Beginning of Year	<u>26,018,066</u>	<u>22,236,874</u>
Net Assets at End of Year	<u>\$27,057,881</u>	<u>\$26,018,066</u>

Part of the operating grants and contributions money was contributed by FEMA and the State of Utah as 2005 flood relief money. Some of the capital grants and contributions money was contributed by St. George City as a joint venture with the District for work related to the Regional Pipeline and the Santa Clara Pipeline for work done by contractors hired by the District. Part of the capital grants and contributions money was contributed by State Parks as a joint venture with the District for work related to recreation at Sand Hollow Reservoir for work done by contractors hired by the District. Money was also contributed by the Virgin River Resource Management and Recovery Program to build the Washington Fields Fish Screen and Diversion Dam. Washington County contributed money for the Dixie Springs water facilities development.

Financial Analysis of the District's Funds
Change in Net Assets

	Business-type Activities 2005	Business-type Activities 2004
Revenues:		
Charges for services	\$3,730,255	\$2,993,167
General Revenues:		
Other	22,574	903
Interest earnings	109,795	11,348
Operating transfers	2,904,255	2,896,850
Transfers of Capital Assets	<u>3,695,743</u>	<u>3,273,169</u>
Total Revenues and Transfers	<u>6,732,367</u>	<u>6,284,403</u>
Expenses:		
Water and power utilities	3,768,379	3,276,767
Interest on long-term debt	<u>1,967,526</u>	<u>2,505,060</u>
Total Expenses	<u>5,735,905</u>	<u>5,781,827</u>
Change in Net Assets	<u>4,813,594</u>	<u>3,495,743</u>
Net Assets at Beginning of Year	<u>25,308,772</u>	<u>21,813,029</u>
Net Assets at End of Year	<u>\$30,122,366</u>	<u>\$25,308,772</u>

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. As the District completed the year, its governmental funds reported a combined fund balance of \$27,607,291 million. Approximately 12.8 % of this total amount, or \$3,534,641, constitutes unreserved fund balance which is available for spending at the District's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to construct new projects.

Governmental funds report the differences between their assets and liabilities as fund balance, which is divided into reserved and unreserved portions. Reservations indicate the portion of the District's fund balances that is not available for appropriation. The unreserved fund balance is, in turn, subdivided between designated and undesignated portions. Designations reflect the District's self-imposed limitation of the use of otherwise available expendable financial resources in governmental funds. Undesignated balances in the General Fund are required by state law to be appropriated in the following year's budget. Fund balances of the Special Revenue Fund and Capital Projects Fund are restricted by state law to be spent for the purpose of the fund and are not available for spending at the District's discretion.

Proprietary funds. The District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Water Fund at the end of the year amounted to \$3,196,332.

General Fund Budgetary Highlights

During the year, the Board revised the District's budget. Budget amendments were made to reflect changes in programs and related funding. Even with these adjustments, actual expenditures were below final budgeted amounts. Resources available for appropriation were above final budgeted amounts. Variances primarily result from expenditures.

Grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met; unspent grant amounts are carried forward and included in the succeeding year's budget. Therefore, actual grant revenues and expenditures are normally less than the amounts budgeted.

Since property taxes comprise the bulk of total revenue, projecting future growth and trends is a critical part of the budget process. Steady growth indicates steady increases in revenue.

Capital Asset and Debt Administration.

Capital Assets. The capital projects fund is used to account for the costs incurred in acquiring, constructing and repairing facilities within the District. The District began and completed various projects during 2005.

Major capital asset events during the current fiscal year included the following:

- Restoration of the Santa Clara Pipeline Project at a cost of \$495,238.19.
- Continued construction of the Regional Pipeline at a cost of \$1,115,055.
- Construction of the Kolob/Crystal Creek pipeline and continued improvements at Kolob Reservoir at a cost of \$308,920.
- Continued building of recreation facilities and drilling of new wells and installation of distribution lines at Sand Hollow at a cost of \$1,369,950.
- Construction of a new two million gallon water tank and installation of distribution lines at Dixie Springs at a cost of \$602,390.
- Construction of the Anderson Jct to Harrisburg Pipeline at cost of \$554,100.
- Construction of a bypass pipeline around Quail Lake to help combat taste and odor problems during the summer months at a cost of \$184,200.
- Construction of the Washington Fields Fish Screen and Diversion Dam at a cost of \$1,631,520.
- The Water District is handling the building of the St. George and Washington Canal Company pipeline project for the Canal Company and is being reimbursed.

Capital assets as of December 31, 2005, are outlined below.

Washington County Water Conservancy District's Capital Assets
(Net of depreciation)

	Governmental Activities 2005	Governmental Activities 2004
Land & water rights	\$12,021,770	\$11,837,004
Buildings, furniture, fixtures, equipment	332,637	332,637
Vehicles	63,147	71,553
Projects in Progress	28,082,597	26,891,452
Accumulated depreciation	<u>(175,921)</u>	<u>(154,471)</u>
Total Capital Assets	<u>\$40,324,230</u>	<u>\$38,978,175</u>

Washington County Water Conservancy District's Capital Assets
(Net of depreciation)

	Business-type Activities 2005	Business-type Activities 2004
Land & water rights	\$2,122,540	\$2,122,540
Buildings, furniture, fixtures, equipment	4,666,684	4,666,684
Dams, pipeline, wells, water tanks, roads	88,932,305	85,236,562
Project equipment	99,662	99,662
Vehicles	138,948	132,436
Accumulated depreciation	<u>19,929,215</u>	<u>17,772,869</u>
Total Capital Assets	<u>\$76,030,924</u>	<u>\$74,485,015</u>

Long-Term Debt. At the end of the current fiscal year the District had total bonded debt outstanding of \$73,273,502.

General Obligation Bonds	\$11,700,000
Revenue Bonds	59,770,000
Notes Payable	<u>1,803,502</u>
Total	<u>\$73,273,502</u>

The District's total debt decreased by \$1,581,884 during the current fiscal year.

The District receives its revenue bonds through the Utah Water Finance Agency. The Utah Water Finance Agency is a cooperative formed with other state water districts which come together to obtain bonds at a better interest rate. The District's revenue bonds are rated AAA by Moody's and are insured.

Additional information on the District's long-term debt can be found in notes 7 and 8 to the basic financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Washington County Water Conservancy District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the office of the District at 136 North 100 E, St. George, UT 84770.

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT

Statement of Net Assets

December 31, 2005

	Governmental Activities	Business-type Activities	Totals
Assets:			
Cash & Cash Equivalents (Note 2)	\$ 9,186,323	\$ 5,144,051	\$ 14,330,374
Accounts Receivable (Note 3)	1,868,301	1,585,319	3,453,620
Due from Other Governmental Units (Note 4)	3,837,492	-	3,837,492
Restricted Cash (Note 2)	1,345,813	1,351,919	2,697,732
Other Assets	376,855	1,629,147	2,006,002
Capital Assets (Note 5):			
Land and Water Rights	12,021,770	2,122,540	14,144,310
Projects in Progress	28,082,597	-	28,082,597
Other Capital Assets (net of accumulated depreciation)	219,863	73,908,384	74,128,247
Total Assets	56,939,014	85,741,360	142,680,374
Liabilities:			
Interfund Balances	-	-	-
Accounts Payable (Note 6)	3,401,505	41,187	3,442,692
Accrued Liabilities (Note 6)	73,605	57,800	131,405
Accrued Interest	250,048	437,637	687,685
Other Current Liabilities	-	4,036	4,036
Long-Term Debt:			
Due within one year (Notes 7 & 8)	516,000	2,423,989	2,939,989
Due in more than one year (Notes 7 & 8)	21,801,878	48,032,820	69,834,698
Deferred Revenue (Note 10)	3,838,097	4,596,525	8,434,622
Other	-	25,000	25,000
Total Liabilities	29,881,133	55,618,994	85,500,127
Net Assets:			
Invested in Capital Assets, net of related debt	19,352,165	25,574,115	44,926,280
Restricted (Note 13)	4,171,075	1,351,919	5,522,994
Unrestricted	3,534,641	3,196,332	6,730,973
Total Net Assets	\$ 27,057,881	\$ 30,122,366	\$ 57,180,247

The notes to the financial statements are an integral part of this statement

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT

Statement of Activities

For the Year Ended December 31, 2005

	Program Revenues					Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Primary Government						
Governmental Activities						
General Government	\$ 7,710,715	\$ 68,566	\$ 2,124,605	\$ 5,287,244	\$ (230,300)	\$ -
Interest on long-term debt	970,301	-	-	-	(970,301)	-
Total Governmental Activities	8,681,016	68,566	2,124,605	5,287,244	(1,200,601)	-
						(1,200,601)
Business-type Activities						
Water and Power Utilities	3,768,379	3,730,255	2,380	84,497	-	48,753
Interest on long-term debt	1,967,526	-	-	-	-	(1,967,526)
Total Business-type Activities	5,735,905	3,730,255	2,380	84,497	-	(1,918,773)
						(1,918,773)
Total Primary Government	\$ 14,416,921	\$ 3,798,821	\$ 2,126,985	\$ 5,371,741	(1,200,601)	(1,918,773)
						(3,119,374)
General Revenues						
Property Taxes					7,787,846	-
Fees In Lieu of Taxes					618,385	-
Other					1,748	22,574
Interest Earnings					432,435	109,795
Transfers In (Out)					(2,904,255)	2,904,255
Transfers of Capital Assets					(3,695,743)	3,695,743
Total General Revenues and Transfers					2,240,416	6,732,367
						8,972,783
Change in Net Assets					1,039,815	4,813,594
						5,853,409
Net Assets at Beginning of Year					26,018,066	25,308,772
						51,326,838
Net Assets at End of Year					\$ 27,057,881	\$ 30,122,366
						\$ 57,180,247

The notes to the financial statements are an integral part of this statement

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT

Balance Sheet Governmental Funds December 31, 2005

	Major Funds			Total
	General Fund	Virgin River Program	Capital Projects Fund	Governmental Funds
ASSETS				
Current Assets:				
Cash & Cash Equivalents (Note 2)	\$ 1,841,968	\$ 3,082,762	\$ 4,261,593	\$ 9,186,323
Accounts Receivable (Note 3)	106	-	1,868,195	1,868,301
Due from Other Governmental Units (Note 4)	3,837,492	-	-	3,837,492
Total Current Assets	5,679,566	3,082,762	6,129,788	14,892,116
Restricted Assets:				
Restricted Cash (Note 2)	-	-	1,345,813	1,345,813
Other Assets:				
Other Assets	243	-	-	243
TOTAL ASSETS	\$ 5,679,809	\$ 3,082,762	\$ 7,475,601	\$ 16,238,172
LIABILITIES & FUND EQUITY				
Current Liabilities:				
Accounts Payable (Note 6)	\$ 96,744	\$ 235	\$ 3,304,526	\$ 3,401,505
Due to Other Funds	-	-	-	-
Accrued Liabilities (Note 6)	69,683	3,922	-	73,605
Other Current Liabilities	-	-	-	-
Total Current Liabilities	166,427	4,157	3,304,526	3,475,110
Other Liabilities:				
Deferred Revenue (Note 10)	759,492	3,078,605	-	3,838,097
Total Liabilities	925,919	3,082,762	3,304,526	7,313,207
Fund Equity:				
Restricted (Note 13)	-	-	4,171,075	4,171,075
Unrestricted	4,753,890	-	-	4,753,890
Total Fund Equity	4,753,890	-	4,171,075	8,924,965
TOTAL LIABILITIES & FUND EQUITY	\$ 5,679,809	\$ 3,082,762	\$ 7,475,601	\$ 16,238,172

The notes to the financial statements are an integral part of this statement

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
December 31, 2005

Total fund balances for governmental funds	\$ 8,924,965
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Total net assets reported for governmental activities differs from the statement of net assets as follows:

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of the following:

Land & Water Rights	\$ 12,021,770	
Office Building	201,924	
Furniture & Fixtures	62,144	
Office Equipment	68,569	
Vehicles	63,147	
Projects in Progress	28,082,597	
Accumulated Depreciation	<u>(175,921)</u>	
Total Capital Assets		40,324,230

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general long-term debt is \$250,048. (250,048)

Bond issuance costs are reported as expenditures in the governmental funds. The cost is \$423,998 and accumulated amortization is \$47,386. 376,612

Long-term Liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end follow:

Bonds Payable	\$ (21,065,000)	
Unamortized Premiums	(703,468)	
Note Payable	<u>(549,410)</u>	
Total Long-term Liabilities		<u>(22,317,878)</u>

Total net assets of governmental activities	<u>\$ 27,057,881</u>
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The notes to the financial statements are an integral part of this statement.

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2005

	General Fund	Virgin River Program	Capital Projects Fund	Total Governmental Funds
REVENUE:				
Property Taxes (Note 9)	\$ 7,787,846	\$ -	\$ -	\$ 7,787,846
Fees In Lieu of Taxes	618,385	-	-	618,385
Interest Income	282,139	113,320	36,976	432,435
Other Income	321,632	2,116,242	5,044,289	7,482,163
Total Revenues	<u>9,010,002</u>	<u>2,229,562</u>	<u>5,081,265</u>	<u>16,320,829</u>
EXPENDITURES:				
Capital Expenditures	192,374	-	-	192,374
New Project Development	84,205	1,257	9,698,303	9,783,765
Public Relations	27,840	3,559	-	31,399
Payroll	285,148	39,906	-	325,054
State Retirement (Note 12)	60,457	8,886	-	69,343
Cloud Seeding	25,125	-	-	25,125
Audit & Accounting	20,723	-	-	20,723
Telephone	7,923	935	-	8,858
Insurance and Bond	62,709	12,239	-	74,948
Travel & Training	23,511	1,913	-	25,424
Office	54,242	1,423	-	55,665
Printing	23,599	316	-	23,915
Miscellaneous	547	-	-	547
Legal	298,707	-	-	298,707
Auto Expense	8,835	-	-	8,835
Board Expense	39,545	-	-	39,545
Debt Service:				
Principle	-	-	505,000	505,000
Interest	-	-	1,004,731	1,004,731
Flood Damage Restoration	1,168,506	-	-	1,168,506
Engineering & Maintenance	-	4,470	-	4,470
Environmental	-	526,767	-	526,767
Conservation	37,657	-	-	37,657
Utilities	6,927	647	-	7,574
Building Maintenance	6,936	-	-	6,936
Total Expenditures	<u>2,435,516</u>	<u>602,318</u>	<u>11,208,034</u>	<u>14,245,868</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In (Out) (Note 11)	(5,781,509)	(1,627,244)	4,504,498	(2,904,255)
Long-Term Debt Proceeds	549,410	-	-	549,410
Total Other Financing Sources	<u>(5,232,099)</u>	<u>(1,627,244)</u>	<u>4,504,498</u>	<u>(2,354,845)</u>
Net Change in Fund Balances	<u>1,342,387</u>	<u>-</u>	<u>(1,622,271)</u>	<u>(279,884)</u>
Fund Balance at Beginning of Year	<u>3,411,503</u>	<u>-</u>	<u>5,793,346</u>	<u>9,204,849</u>
FUND BALANCE AT END OF YEAR	<u>\$ 4,753,890</u>	<u>\$ -</u>	<u>\$ 4,171,075</u>	<u>\$ 8,924,965</u>

See Notes To Financial Statements

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Government Funds to the Statement of Activities
For the Year Ended December 31, 2005

Net change in fund balances - total governmental funds	\$ (279,884)
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Amounts reported for governmental activities differs from the statement of activities as follows:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlays	\$ 5,334,706	
Depreciation	(36,506)	
Loss on retirement of capital assets	(256,402)	
Total Capital Assets	5,041,798	

In addition, as governmental funds do not report capital assets, transfers of capital assets to the enterprise fund are not reported in the governmental fund. The amount during 2004 is:

(3,695,743)

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Amortization of bond issue costs	\$ (16,376)	
Amortization of bond premium	30,586	
Long-Term Debt Proceeds	(549,410)	
Repayment of Bond Principal	505,000	
Interest Expense	3,844	
Total Long-term Liabilities	(26,356)	

Change in net assets of governmental activities	\$ 1,039,815
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The notes to the financial statements are an integral part of this statement

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT

Statement of Net Assets--Proprietary Fund

December 31, 2005

With Comparative Totals from December 31, 2004

	<u>2005</u>	<u>2004</u>
ASSETS:		
Current Assets:		
Cash & Cash Equivalents (Note 2)	\$ 5,144,051	\$ 4,400,628
Due From Other Funds	-	-
Accounts Receivable (Note 3)	1,585,319	1,275,840
Total Current Assets	<u>6,729,370</u>	<u>5,676,468</u>
Restricted Assets:		
Restricted Cash (Note 2)	1,351,919	1,580,363
Fixed Assets (Note 5):		
Land and Water Rights	2,122,540	2,122,540
Other Fixed Assets (net of accumulated depreciation)	73,908,384	72,362,474
Other Assets:		
Other Assets	<u>1,629,147</u>	<u>1,442,458</u>
TOTAL ASSETS	<u>85,741,360</u>	<u>83,184,303</u>
LIABILITIES:		
Current Liabilities:		
Accounts Payable (Note 6)	41,187	10,249
Accrued Liabilities (Note 6)	57,800	36,513
Accrued Interest	437,637	513,347
Other Current Liabilities	4,036	3,000
Current Portion of Long-Term Debt (Notes 7 & 8)	<u>2,423,989</u>	<u>2,794,011</u>
Total Current Liabilities	<u>2,964,649</u>	<u>3,357,120</u>
Long Term Liabilities:		
Bonds Payable (net of deferred refunding costs)(Notes 7 & 8)	49,202,717	51,288,229
Notes Payable (Notes 8)	1,254,092	1,263,103
Less: Current Portion (Notes 7 & 8)	<u>(2,423,989)</u>	<u>(2,794,011)</u>
Total Long Term Liabilities	<u>48,032,820</u>	<u>49,757,321</u>
Other Liabilities:		
Deferred Revenue (Note 10)	4,596,525	4,736,090
Other	25,000	25,000
Total Other Liabilities	<u>4,621,525</u>	<u>4,761,090</u>
TOTAL LIABILITIES	<u>55,618,994</u>	<u>57,875,531</u>
NET ASSETS:		
Invested in Capital Assets, net of related debt	25,574,115	21,933,682
Restricted (Note 13)	1,351,919	1,580,363
Unrestricted	<u>3,196,332</u>	<u>1,794,727</u>
TOTAL NET ASSETS	<u>\$ 30,122,366</u>	<u>\$ 25,308,772</u>

See Notes to Financial Statements

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Propriety Fund

For the Year Ended December 31, 2005

With Comparative Totals for the Year Ended December 31, 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES:		
Power Sales	\$ 1,235,740	\$ 956,143
Water Sales	2,206,306	1,730,437
Water Availability Fees	<u>267,062</u>	<u>298,810</u>
Total Revenues	<u>3,709,108</u>	<u>2,985,390</u>
EXPENSES:		
Depreciation (Note 5)	2,194,268	2,102,545
Environmental	1,883	39,645
Operations & Maintenance	331,177	241,833
Payroll	434,036	345,898
State Retirement (Note 12)	91,716	71,243
Insurance & Bonds	223,997	191,470
Utilities	331,010	143,862
Water Fees	18,442	14,952
Telephone	12,806	12,271
Auto Expenses	32,485	17,572
Service Charges	81,831	82,401
Miscellaneous	311	120
Travel & Training	<u>14,417</u>	<u>12,955</u>
Total Expenses	<u>3,768,379</u>	<u>3,276,767</u>
Income (Loss) From Operations	<u>(59,271)</u>	<u>(291,377)</u>
OTHER INCOME (EXPENSES):		
Other Income	130,598	8,680
Interest Income	109,795	113,481
Interest Expense	<u>(1,967,526)</u>	<u>(2,505,060)</u>
Total Other Income (Expenses)	<u>(1,727,133)</u>	<u>(2,382,899)</u>
Net Income (Loss)	<u>(1,786,404)</u>	<u>(2,674,276)</u>
Net Assets at Beginning of Year	25,308,772	21,813,029
Transfers In (Out) (Note 12)	2,904,255	2,896,850
Transfers of Capital Assets (Note 12)	<u>3,695,743</u>	<u>3,273,169</u>
Net Assets at End of Year	<u><u>\$ 30,122,366</u></u>	<u><u>\$ 25,308,772</u></u>

See Notes To Financial Statements

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT

Statement of Cash Flows

Proprietary Fund

For the Years Ended December 31, 2005

With Comparative Totals for the Year Ended December 31, 2004

	2005	2004
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 3,260,064	\$ 2,699,851
Payments to suppliers and providers of services	(1,303,149)	(816,000)
Payments to employees	(404,390)	(339,100)
Net Cash Provided(Used) by Operating Activities	1,552,525	1,544,751
<u>Cash Flows From Noncapital Financing Activities:</u>		
Other Revenue	130,598	8,680
Amount received (paid) from Other Fund	-	566,427
Restricted Cash transferred with debt related to completed project	-	-
Transfers In	3,370,005	3,329,740
Transfers Out	(465,750)	(432,890)
Net Cash Provided by Noncapital Financing Activities	3,034,853	3,471,957
<u>Cash Flows From Capital and Financing Activities:</u>		
Bond Proceeds	19,000,000	-
Repayment of bonds	(21,075,000)	(2,175,000)
Interest paid on Capital Debt	(1,994,986)	(2,118,427)
Acquisition & Construction of Capital Assets	(112,208)	(104,464)
Net Cash Used by Capital and Related Financing Activities	(4,182,194)	(4,397,891)
<u>Cash Flows From Investing Activities:</u>		
Interest & Dividends Received	109,795	113,481
Acquisition of Investment Land	-	(1,037,305)
Net Cash Provided by Investing Activities	109,795	(923,824)
Net Increase (Decrease) in Cash	514,979	(305,007)
Cash at Beginning of Year	5,980,991	6,285,998
Cash at End of Year	\$ 6,495,970	\$ 5,980,991

Reconciliation of Operating Income to Net Cash

provided by (used in) operating activities:

Operating Income (Loss)	\$ (59,271)	\$ (291,377)
Depreciation	2,194,268	2,102,545
Amortization	27,672	27,672
(Increase) Decrease in Accounts Receivable	(309,479)	(140,490)
(Increase) Decrease in Other Assets	(214,361)	(4,234)
(Decrease) Increase in Accounts Payable	30,938	(8,550)
(Decrease) Increase in Accrued Liabilities	21,287	(3,500)
Increase (Decrease) in Other Current Liabilities	1,036	2,250
Increase (Decrease) in Other Liabilities	(139,565)	(139,565)
Net Cash Provided(Used) by Operating Activities	\$ 1,552,525	\$ 1,544,751

Noncash Capital Activities:

During 2005, the District transferred \$3,695,743 in completed projects from Projects in Progress in the Capital Projects fund to the Enterprise Fund.

The notes to the financial statements are an integral part of this statement.

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNT POLICIES

The Washington County Water Conservancy District (the District) prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) for governmental entities. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies of the District are described in subsequent sections of this note.

Reporting entity - The District was organized by the 5th Judicial District for Washington County, State of Utah, and the seven board members were appointed by the Washington County Commissioners. The purpose of the District is to provide for water conservation within Washington County. Activities of the District include identification of possible future water storage sites and the purchase and construction of such facilities. The District is an independent reporting entity and is not a component unit of any other government. The Board establishes District policies, approves the budget, is responsible for fiscal matters, is authorized to issue bonds, incur debt, and to levy ad valorem taxes.

All funds, including all financial activities over which the Board has financial accountability, are included in this report. The District's financial reporting entity is comprised of all funds of the District, which constitute the primary government.

In determining the financial reporting entity, the District complies with the provisions of Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the District is either able to impose its will on the unit or a financial benefit or burden relationship exists. The District has no component units.

Government-wide and fund financial statements - The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the District. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 have been applied in the government-wide financial statements unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those which are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNT POLICIES - (CONTINUED)

Separate financial statements are provided for each fund category (governmental and proprietary). Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

- The *general fund* is the District's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.
- The *capital projects fund* are used to account for financial resources to be used for the acquisition and improvement of sites, construction and remodel of major capital facilities.
- The *Virgin River program fund* is a special revenue fund and accounts for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

Additionally, the District reports their power and water production, storage and distribution operations as a proprietary fund.

Measurement focus, basis of accounting, and financial statement presentation – The *government-wide and proprietary fund financial statements* are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District receives value without directly giving equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes and interest are considered susceptible to accrual. All other revenue items are considered to be measurable and available only when the District receives cash. Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNT POLICIES - (CONTINUED)

Cash, Deposits and Investments - Cash includes demand deposits with banks. Deposits are not collateralized nor are they required to be by State statute. State law requires that the District follow the requirements of the State Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and investment transactions. This law requires the depositing of District funds in a "qualified depository." The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Utah State Commissioner of Financial Institutions as meeting the requirements of the Act. The Act also defines the type of investments allowable which include demand deposits and time certificates of deposit of "qualified" depositories of the State of Utah, repurchase agreements with "qualified" depositories, bonds or other evidence of indebtedness of the U.S. Government, investment pools with the Utah State Treasurer, and commercial paper of qualifying companies. Investments are stated at cost.

Capital Assets - Capital assets, which include property, water rights, structures and equipment, are reported in the applicable governmental or business-type activities columns in the government wide financial statements. Capital assets are defined by the District as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are not capitalized. Donated fixed assets are valued at their estimated fair value on the date donated.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Building and improvements	10 - 40 years
Water Systems	40 - 50 years
Hydroelectric Plants & Components	35 years
Furniture, Fixtures & Equipment	5 - 15 years

Compensated Absences - The District accrues unpaid annual time off, when earned by the employee. All accrued leave at December 31, 2005 was recorded as a current liability in the General and Proprietary funds.

Long-Term Obligations - In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amounts of the debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNT POLICIES - (CONTINUED)

Restricted Assets - Restricted assets include cash restricted for future payments of principal and interest on debt service as well as unexpended portions of bonds issued for capital construction purposes.

Budgetary Data - The District adopts an annual budget for governmental and business-type Funds. Once adopted, the budget can be amended by subsequent board action. Budgets are presented on the modified accrual basis of accounting for all governmental funds. The level by which expenditures may not legally exceed appropriations is the total budget of a given fund.

Property Taxes - The property taxes of the District are levied, collected, and distributed by Washington County as required by Utah State law. Utah statutes established the process by which taxes are levied and collected. The county assessor is required to assess real property as of January 1 and complete the tax rolls by May 22. By July 22, the county auditor is to mail notices of assessed value and tax changes to property owners. A taxpayer may then petition the county board of equalization between August 8 and August 22 for a revision of the assessed value. Approved changes in assessed value are made by the county auditor by November 1, who also delivers the completed assessment rolls to the county treasurer on that same date. Tax notices have a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at a rate equal to the federal discount rate; the interest period is from January 1 until the date paid. If in May of the fifth year the taxes remain delinquent, the County advertises and sells the property at a tax sale. Therefore, property taxes are ultimately collectible and no allowance for doubtful accounts is considered necessary. As of December 31, 2005, all real property was assessed at \$10,680,564,578.

NOTE 2 - CASH AND CASH EQUIVALENTS

The District pools the cash and cash equivalents of the various funds into a number of demand and interest-bearing accounts in the custody of the District Treasurer.

Cash - At December 31, 2005, the carrying amount of the District's bank deposits was \$438,340 and the bank balances were \$524,798. Of the bank balances, \$200,000 was covered by Federal Depository Insurance and \$324,798 was uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by State statute.

Investments - The District's investments are categorized below to give an indication of the risk assumed by the District at December 31, 2005. Category 1 includes investments that are insured or registered or for which the securities are held by the District in the District's name, and include deposits collateralized by securities held by the District in the District's name. Category

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND CASH EQUIVALENTS - (CONTINUED)

2 includes uninsured and unregistered investments for which the investments are held by a broker or dealer in the District's name, and includes deposits collateralized by securities held by the pledging institution in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer but not in the District's name, and includes deposits not insured or collateralized.

Investments at December 31, 2005 consisted of the following:

	<u>Category</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
US Treasury Securities	\$ —	\$ —	\$ 1,042,268	\$ 1,042,268	\$ 1,054,105
Investment in state treasurer's investment pool				<u>15,547,497</u>	<u>15,540,715</u>
Total Investments				16,589,765	16,572,750
Total Cash Deposits	200,000	—	238,341	<u>438,341</u>	<u>438,341</u>
Total Cash & Investments				<u>\$ 17,028,106</u>	<u>\$ 17,011,091</u>

A summary of the cash and investments at December 31, 2005, is as follows:

US Treasury Securities	\$ 1,042,268
Demand Deposits	438,341
State Treasurer	<u>15,547,497</u>
Total Cash and Cash Equivalents	<u>\$ 17,028,106</u>

Presented by:

General Fund	\$ 1,841,968
Virgin River Program	3,082,762
Capital Projects Fund	5,607,406
Enterprise Fund	<u>6,495,970</u>
Total	<u>\$ 17,028,106</u>

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable of the Enterprise Funds are from power and water sales. The Power Sales are to Dixie Escalante REA and Hurricane City, and are made under a contract dated May 10, 1984. The contract specifies that power generated be sold at seven cents per kilowatt hour. Dixie Escalante REA purchases all power produced by the Quail Creek Hydroelectric plant and Hurricane City purchases all power generated by the Pah Tempe Plant. The water sales arise from individual contracts to various municipalities and others. Accounts receivable balance at December 31, 2005 consisted of the following:

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - ACCOUNTS RECEIVABLE - (CONTINUED)

<u>Customer</u>	<u>Amount</u>	<u>Type</u>
Dixie Escalante REA	\$ 77,119	Power
Hurricane City	23,336	Power
St. George City	1,072,295	Water
Washington City	91,205	Water
Ivins City	75,434	Water
Hurricane City	180,844	Water
Other	65,086	Water
Total	<u>\$ 1,585,319</u>	

Accounts receivable of the capital projects fund is from the cities of Santa Clara and St. George and the U.S. Dept. Of Agriculture.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

The amount due from other governmental units consists of property taxes collected for the District by Washington County but unremitted as of December 31, 2005 as well as uncollected property taxes which are also recorded as deferred revenue.

NOTE 5 - CAPITAL ASSETS

Capital asset activity as of December 31, 2005 consisted of the following:

	<u>12/31/2004</u>				<u>12/31/2005</u>
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance</u>
Governmental Activities:					
Nondepreciable Capital Assets:					
Land & Water Rights	\$ 11,837,004	\$ 184,766	\$ —	\$ —	\$ 12,021,770
Projects in Progress	<u>26,891,451</u>	<u>5,120,703</u>	<u>233,814</u>	<u>(3,695,743)</u>	<u>28,082,597</u>
Total Nondepreciable Assets	<u>38,728,455</u>	<u>5,305,469</u>	<u>233,814</u>	<u>(3,695,743)</u>	<u>40,104,367</u>
Depreciable Capital Assets:					
Office Building	201,924	—	—	—	201,924
Furniture & Fixtures	62,144	—	—	—	62,144
Office Equipment	68,569	—	—	—	68,569
Vehicles	<u>71,553</u>	<u>29,237</u>	<u>37,643</u>	<u>—</u>	<u>63,147</u>
Total Depreciable Capital Assets	404,190	29,237	37,643	—	395,784
Accumulated Depreciation	<u>(154,471)</u>	<u>36,506</u>	<u>15,056</u>	<u>—</u>	<u>(175,921)</u>
Depreciable Capital Assets, net	<u>249,719</u>	<u>(7,269)</u>	<u>(22,587)</u>	<u>—</u>	<u>219,864</u>
Capital Assets, net	<u>\$ 38,978,174</u>	<u>\$ 5,298,200</u>	<u>\$ (256,401)</u>	<u>\$ (3,695,743)</u>	<u>\$ 40,324,230</u>

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CAPITAL ASSETS - (CONTINUED)

Depreciation expense for the year ended December 31, 2005 of \$31,250 was charged to governmental activities.

	12/31/2004				12/31/2005
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance</u>
Business-type Activities:					
Nondepreciable Capital Assets:					
Land & Water Rights	\$ 2,122,540	\$ —	\$ —	\$ —	\$ 2,122,540
Depreciable Capital Assets:					
Hydroplants	4,666,684	—	—	—	4,666,684
Diversión Dam & Pipeline	11,660,454	—	—	—	11,660,454
Other Equipment	99,662	—	—	—	99,662
Roads & Recreation	1,308,643	—	—	—	1,308,643
Vehicles	132,436	112,208	105,696	—	138,948
Quail Creek Dams	24,344,830	—	—	42,343	24,387,173
Hurricane Valley Water System	984,540	—	—	—	984,540
Cottam Well Water System	2,214,338	—	—	—	2,214,338
Quail Creek Parallel	2,786,847	—	—	1,681,445	4,468,292
Kayenta Ence Wells	538,617	—	—	2,447	541,064
Kolob Reservoir	954,099	—	—	—	954,099
Washington City System	115,286	—	—	—	115,286
Fairground Water	138,143	—	—	—	138,143
Toquerville Secondary Water System	2,545,510	—	—	—	2,545,510
Webb Hill Fish Barrier	95,584	—	—	—	95,584
Sand Hollow	33,887,415	—	—	1,963,195	35,850,610
Leap Creek	323,932	—	—	—	323,932
Drought Mitigation Plan	1,461,868	—	—	—	1,461,868
Virgin-LaVerkin Water System	1,876,456	—	—	6,312	1,882,768
Total Depreciable Capital Assets	90,135,344	112,208	105,696	3,695,743	93,837,599
Less Accumulated Depreciation	(17,772,869)	2,194,268	37,922	—	(19,929,215)
Depreciable Capital Assets, net	72,362,475	(2,082,060)	67,774	3,695,743	73,908,384
Capital Assets, net	<u>\$ 74,485,015</u>	<u>\$ (2,082,060)</u>	<u>\$ 67,774</u>	<u>\$ 3,695,743</u>	<u>\$ 76,030,924</u>

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at December 31, 2005 include amounts due for various contracts and operating expenses of District and the District's accrued liabilities as of December 31, 2005.

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - BONDS PAYABLE - (CONTINUED)

On March 21, 2002, the District issued \$10,030,000 Series A-2 Revenue Refunding Bonds with a variable interest rate to refund \$9,290,000 of the outstanding 1997A Series bonds with an average interest rate of 5.652 percent. The District also entered into an interest swap agreement with Ambac Financial Services, L.P. which guarantees the district a fixed interest rate of 4.53% with these bonds through October 1, 2010. The District does have the option of continuing the agreement at a negotiated rate at that time. Since there is not a way to determine what the interest rate will be after that date, the 4.53% rate was used in the disclosures here. The period between the date of closing and the first call date of the Bonds is not more than 10 ½ years. The District has the right to purchase bonds in lieu of certain redemptions. All redemptions and purchases in lieu of redemption or purchase price of 100% of the principal amount of the bonds being redeemed or purchased plus accrued interest, if any, to the relevant redemption or purchase date. The remaining debt service is as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual</u> <u>Debt Service</u>
2006	\$ 100,000	\$ 464,290	\$ 564,290
2007	100,000	460,820	560,820
2008	100,000	457,030	557,030
2009	600,000	453,030	1,053,030
2010	600,000	427,830	1,027,830
2011	700,000	401,910	1,101,910
2012	700,000	370,970	1,070,970
2013	700,000	339,400	1,039,400
2014	700,000	306,990	1,006,990
2015	800,000	273,880	1,073,880
2016	800,000	235,240	1,035,240
2017	800,000	195,800	995,800
2018	800,000	155,640	955,640
2019	800,000	115,080	915,080
2020	800,000	74,120	874,120
2021	<u>630,000</u>	<u>32,760</u>	<u>662,760</u>
Totals	<u>\$ 9,730,000</u>	<u>\$ 4,764,790</u>	<u>\$ 14,494,790</u>

On March 27, 1997, the District issued \$13,435,000 in Series 1997A Revenue bonds with interest rates that range from 4.05% to 5.75% and are payable in semiannual installments including interest on April 1 and October 1 of each year. The bonds are subject to optional and mandatory sinking fund redemption prior to maturity. Optional redemption of the bonds maturity on and after October 1, 2009 are subject to redemption prior to maturity at the option of the District on and after October 1, 2007, as a whole or in part at any time, from

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - BONDS PAYABLE - (CONTINUED)

such redemption date. The Series 1997A bonds maturing on October 1, 2017 through October 1, 2021, maturities or parts thereof as shall be selected by the District, plus accrued interest to the 2021 are subject to mandatory sinking fund redemption on October 1, 2013 through October 1, 2018, at a redemption price equal to 100% of the principal amount of such Series 1997A bonds to be so redeemed, plus accrued interest to the redemption date. The Series 1997A bonds were partially refunded in 2002. The remaining debt service is as follows:

<u>Year</u> <u>Ending Dec. 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual</u> <u>Debt</u> <u>Service</u>
2006	\$ 430,000	\$ 71,485	\$ 501,485
2007	455,000	49,985	504,985
2008	<u>480,000</u>	<u>24,960</u>	<u>504,960</u>
Totals	<u>\$ 1,365,000</u>	<u>\$ 146,430</u>	<u>\$ 1,511,430</u>

During 2000 and 2001, \$6,000,000 in Water Conservancy Revenue bonds were issued by the District to the state of Utah with the proceeds being designated for the Sand Hollow Project. Each principal installment is subject to prepayment and redemption at any time, in whole or in part (if in part, in integral multiples of \$1,000), at the election of the Issuer, and at a Redemption Price of 100% plus unpaid interest on any past due principal installment. These bonds are non interest-bearing bonds and mature as follows:

2030	\$ 1,500,000	2032	1,500,000
2031	1,500,000	2033	<u>1,500,000</u>
		Total	<u>\$ 6,000,000</u>

On July 15, 1999, the District issued \$22,570,000 in Series 1999A Revenue Bonds with interest rates that range from 4.35% to 5.5 % and are payable in semiannual installments including interest on April 1 and October 1 of each year. The bonds maturing on or after October 1, 2009, are not subject to redemption prior to maturity. The bonds maturing on or after October 1, 2010 are subject to redemption at any time on or after October 1, 2009, in whole or in part, at the election of the Issuer from such maturities as shall be determined by the Issuer in its discretion and within each maturity as selected by the Trustee, upon notice as provided in Section 4.03 of the Resolution, and at redemption price equal to 100% of the principal amount of each Series 1999A Bond or portion thereof to be so redeemed, plus interest to the redemption date. The Series 1999A term bonds maturing on October 1, 2019, through October 1, 2029, shall be subject to redemption in part by operation of sinking fund installments starting on October 1, 2015, and on each October 1 thereafter and including October 1, 2028. The remaining debt service is as follows:

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - BONDS PAYABLE - (CONTINUED)

<u>Year</u> <u>Ending Dec. 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual</u> <u>Debt Service</u>
2006	\$ 465,000	\$ 1,150,101	\$ 1,615,101
2007	490,000	1,128,711	1,618,711
2008	510,000	1,105,681	1,615,681
2009	535,000	1,081,201	1,616,201
2010	560,000	1,054,986	1,614,986
2011	590,000	1,025,586	1,615,586
2012	625,000	993,874	1,618,874
2013	655,000	960,280	1,615,280
2014	695,000	924,255	1,619,255
2015	730,000	886,030	1,616,030
2016	770,000	846,610	1,616,610
2017	810,000	805,030	1,615,030
2018	855,000	761,290	1,616,290
2019	905,000	715,120	1,620,120
2020	950,000	666,250	1,616,250
2021	1,005,000	614,950	1,619,950
2022	1,055,000	560,680	1,615,680
2023	1,115,000	503,710	1,618,710
2024	1,175,000	443,500	1,618,500
2025	1,240,000	380,050	1,620,050
2026	1,305,000	311,850	1,616,850
2027	1,375,000	240,075	1,615,075
2028	1,455,000	164,450	1,619,450
2029	<u>1,535,000</u>	<u>84,425</u>	<u>1,619,425</u>
Totals	<u>\$ 21,405,000</u>	<u>\$ 17,408,695</u>	<u>\$ 38,813,695</u>

On October 31, 2002, the District issued \$20,000,000 in Series 2002C Revenue Bonds with interest rates that range from 3.00% to 5.25 % and are payable in semiannual installments including interest on April 1 and October 1 of each year. The bonds are subject to optional and mandatory sinking fund redemption prior to maturity. First call date is not more than 10 ½ years. Optional redemption of the Series 2002C bonds maturing on and after October 1, 2013 are subject to mandatory sinking fund redemption prior to maturity at the option of the District on and after October 1, 2012, in whole or in part at any time, from such maturities or parts thereof as shall be selected by the District, at a redemption price of 100% of the principal amount of the bonds or portions thereof to be redeemed, plus accrued interest to the redemption date. Sinking fund redemption of the Series 2002C bonds maturing on October 1, 2020, are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount of such Series 2002C bonds to be so redeemed, plus accrued interest to the redemption date. The remaining debt service is as follows:

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - BONDS PAYABLE - (CONTINUED)

<u>Year Ending Dec. 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service</u>
2006	\$ 465,000	\$ 951,081	\$ 1,416,081
2007	480,000	937,132	1,417,132
2008	505,000	917,931	1,422,931
2009	515,000	892,681	1,407,681
2010	555,000	866,931	1,421,931
2011	575,000	839,182	1,414,182
2012	615,000	810,431	1,425,431
2013	650,000	779,681	1,429,681
2014	675,000	745,556	1,420,556
2015	715,000	710,119	1,425,119
2016	750,000	672,581	1,422,581
2017	795,000	635,081	1,430,081
2018	825,000	595,331	1,420,331
2019	875,000	552,019	1,427,019
2020	925,000	510,819	1,435,819
2021	960,000	467,250	1,427,250
2022	1,005,000	420,450	1,425,450
2023	1,055,000	371,456	1,426,456
2024	1,110,000	320,025	1,430,025
2025	1,170,000	265,912	1,435,912
2026	1,230,000	204,488	1,434,488
2027	1,295,000	139,913	1,434,913
2028	<u>1,370,000</u>	<u>71,925</u>	<u>1,441,925</u>
Totals	<u>\$ 19,115,000</u>	<u>\$ 13,677,975</u>	<u>\$ 32,792,975</u>

On March 11, 2004 the Board of Water Resources agreed to purchase \$2,000,000 in District revenue bonds for the District's Gunlock to Santa Clara transmission pipeline project which will be repaid at 2% interest over 25 years. Each series principal installment is subject to repayment and redemption at any time, in whole or in part (if in part, in integral multiples of \$1,000), at the election of the Issuer, in inverse order of the due dates of the Series 2004 Principal Installments, upon notice as provided in Section 4.03 of the Resolution, and at the Redemption Price of 100%, plus accrued interest. The remaining debt service is as follows:

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - BONDS PAYABLE - (CONTINUED)

\$110,000 of 1999A Series sinking fund monies were used to purchase U.S. Treasury securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for any future debt service payments on the 1999A Series bonds. As a result, the 1999A Series bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,181,410. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2029 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next 25 years by \$1,362,441 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$815,585. The remaining debt service is as follows:

<u>Year</u> <u>Ending Dec. 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual</u> <u>Debt Service</u>
2006	\$ 30,000	\$ 935,400	\$ 965,400
2007	30,000	934,350	964,350
2008	35,000	933,300	968,300
2009	35,000	932,075	967,075
2010	35,000	930,850	965,850
2011	575,000	929,450	1,504,450
2012	655,000	906,450	1,561,450
2013	675,000	880,250	1,555,250
2014	715,000	846,500	1,561,500
2015	745,000	810,750	1,555,750
2016	785,000	773,500	1,558,500
2017	830,000	734,250	1,564,250
2018	870,000	692,750	1,562,750
2019	915,000	649,250	1,564,250
2020	960,000	603,500	1,563,500
2021	1,010,000	555,500	1,565,500
2022	1,055,000	505,000	1,560,000
2023	1,110,000	452,250	1,562,250
2024	1,165,000	396,750	1,561,750
2025	1,220,000	338,500	1,558,500
2026	1,285,000	277,500	1,562,500
2027	1,350,000	213,250	1,563,250
2028	1,420,000	145,750	1,565,750
2029	<u>1,495,000</u>	<u>74,750</u>	<u>1,569,750</u>
Totals	<u>\$ 19,000,000</u>	<u>\$ 15,451,875</u>	<u>\$ 34,451,875</u>

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - BONDS PAYABLE - (CONTINUED)

In prior years, the District defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. On December 31, 2005, \$28,085,000 of bonds outstanding are considered defeased.

Bond Issue costs have been incurred on the various issues. They are classified as other assets and are being amortized over the life of the bonds. The following shows the 2005 activity:

	Beginning Balance 12/31/2004	2005 Additions	2005 Decreases	Ending Balance 12/31/2005
Bond Issue Costs	\$ 727,149	\$ 353,410	\$ 130,657	\$ 949,902
Amortization	(182,070)	38,770	—	(220,840)
Net	<u>\$ 545,079</u>	<u>\$ 314,640</u>	<u>\$ 130,657</u>	<u>\$ 729,062</u>

NOTE 8 - LONG TERM DEBT

As of December 1, 1994, Cedar City, Utah exercised their option and pulled out of their contract agreement with the District (see Note 18). Per the contract this requires the District to reimburse Cedar City for the project costs they had prepaid (\$1,282,500) over 20 years at 5.0% interest with the first payment beginning December 1, 2000 as listed below. During 2000, Cedar City and the District agreed to lower this amount by the City's proportionate share of repair costs. This was recorded on the financial statements as a prior period adjustment of \$19,397 to fund balance and lowering the debt to \$1,263,103. The remaining debt service is as follows:

Year Ending December 31	Principal	Interest	Annual Debt Service
2006	\$ 63,989	\$ 62,704	\$ 126,693
2007	67,188	59,505	126,693
2008	70,548	56,145	126,693
2009	74,075	52,618	126,693
2010	77,779	48,914	126,693
2011	81,668	45,025	126,693
2012	85,751	40,942	126,693
2013	90,039	36,654	126,693
2014	94,540	32,153	126,693
2015	99,267	27,426	126,693
2016	104,231	22,462	126,693
2017	109,442	17,251	126,693
2018	114,915	11,778	126,693
2019	120,660	6,033	126,693
Totals	<u>\$ 1,254,092</u>	<u>\$ 646,303</u>	<u>\$ 1,900,395</u>

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG TERM DEBT - (CONTINUED)

On August 9, 2005 the District entered into a Promissory Note Agreement with Washington County in the Disaster Loan Program for \$549,410 to help with the flood damage that occurred in January 2005. The Note is interest free and matures on June 1, 2007.

The following is a summary of the District's Long-Term Debt by type at December 31, 2005:

General Obligation Bonds	\$ 11,700,000
Revenue Bonds	59,770,000
Notes Payable	<u>1,803,502</u>
Total	<u>\$ 73,273,502</u>

The following is a summary of bond and loan transactions for the District during 2005:

	Balance 12/31/2004	New Debt	Repayments	Balance 12/31/2005
Governmental Activities Debt:				
2003C Revenue Bonds	\$19,570,000	\$ —	\$ 455,000	\$ 19,115,000
Washington County Note	—	549,410	—	549,410
2004 Revenue Bonds	<u>2,000,000</u>	<u>—</u>	<u>50,000</u>	<u>1,950,000</u>
Total Governmental Debt	21,065,000	549,410	505,000	21,614,410
Plus Deferred Issuance Premiums	<u>734,054</u>	<u>—</u>	<u>30,586</u>	<u>703,468</u>
Governmental Activities Net Debt	<u>\$ 22,304,054</u>	<u>\$ 549,410</u>	<u>\$ 535,586</u>	<u>\$ 22,317,878</u>
Business-type Activities Debt:				
1999A Series Revenue Bonds	\$ 21,845,000	\$ —	\$ 19,235,000	\$ 2,610,000
2000A Series Revenue Bonds	6,000,000	—	—	6,000,000
1999 Series Refunding Bonds	6,330,000	—	330,000	6,000,000
2002 A-2 Refunding Bonds	9,830,000	—	100,000	9,730,000
1990 Water Conservancy Bonds	6,700,000	—	1,000,000	5,700,000
2005B Refunding Bonds	—	19,000,000	—	19,000,000
Cedar City Refund Note	1,263,103	—	9,011	1,254,092
1997A Bonds	<u>1,775,000</u>	<u>—</u>	<u>410,000</u>	<u>1,365,000</u>
Total Business-type Debt	53,743,103	19,000,000	21,084,011	51,659,092
Plus Deferred Issuance Premiums	—	1,089,163	43,567	1,045,596
Less Deferred Refunding Costs	<u>(1,191,771)</u>	<u>(1,181,410)</u>	<u>(125,302)</u>	<u>(2,247,879)</u>
Business-type Activities Net Debt	<u>\$ 52,551,332</u>	<u>\$ 18,907,753</u>	<u>\$ 21,002,276</u>	<u>\$ 50,456,809</u>

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG TERM DEBT - (CONTINUED)

Total remaining principle and interest debt service by year is as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service</u>
2006	\$ 2,939,989	\$ 2,946,679	\$ 5,886,668
2007	3,573,598	2,864,789	6,438,387
2008	3,128,548	2,771,105	5,899,653
2009	3,198,075	2,664,309	5,862,384
2010	3,297,779	2,558,551	5,856,330
2011	3,185,668	2,445,162	5,630,830
2012	2,585,751	2,330,121	4,915,872
2013	2,672,039	2,210,745	4,882,784
2014	2,757,540	2,078,776	4,836,316
2015	2,959,267	1,940,424	4,899,691
2016	3,076,231	1,791,832	4,868,063
2017	3,202,442	1,639,246	4,841,688
2018	3,314,915	1,480,191	4,795,106
2019	2,797,660	1,330,618	4,128,278
2020	2,773,000	1,196,860	3,969,860
2021	2,690,000	1,065,872	3,755,872
2022	2,152,000	941,170	3,093,170
2023	2,259,000	837,586	3,096,586
2024	2,371,000	728,775	3,099,775
2025	2,487,000	614,492	3,101,492
2026	2,614,000	490,128	3,104,128
2027	2,746,000	359,323	3,105,323
2028	2,893,000	221,815	3,114,815
2029	1,599,000	76,830	1,675,830
2030	1,500,000	—	1,500,000
2031	1,500,000	—	1,500,000
2032	1,500,000	—	1,500,000
2033	1,500,000	—	1,500,000
Totals	<u>\$ 73,273,502</u>	<u>\$ 37,585,400</u>	<u>\$ 110,858,902</u>

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - TAX RATE

During 2005 the District, in accordance with State Law, assessed Washington County property owners a tax rate of .001 for the purpose of water conservancy.

NOTE 10 - DEFERRED REVENUE

During 1991 the City of St. George exercised the option in its contract with the District that allowed them to prepay 46 years of project water costs for 10,000 acre feet annually of Quail Creek water for \$5,500,000. However, the city will continue to be obligated to pay operation and maintenance costs and repair and replacement fund costs consistent with the remaining terms of the original contract. The \$5,500,000 was recorded as a deferred revenue and will be recognized as revenue over the 46-year period on a straight line basis.

During 2000 the City of Ivins prepaid 50 years of project water costs for 1,000 acre feet annually of Quail Creek water for \$1,000,000 per its contract with the District. The City will be obligated to pay operation and maintenance costs and repair and replacement fund costs consistent with the remaining terms of the contract. The \$1,000,000 was recorded as a deferred revenue and will be recognized as revenue over the 50-year period on a straight line basis.

NOTE 11 - OPERATING TRANSFERS

During 2005 the following transfers were made including transferring of \$1,770,005 of property taxes and fees in lieu of taxes from the General Fund to the Enterprise Fund for debt service of the General Obligation bonds carried in the Enterprise fund.

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Enterprise Fund</u>	<u>Virgin River Program</u>
Transfers In	\$ —	\$ 4,504,498	\$ 3,620,200	\$ —
Transfers (Out)	<u>(5,781,509)</u>	<u>—</u>	<u>(715,945)</u>	<u>(1,627,244)</u>
Net	<u>\$ (5,781,509)</u>	<u>\$ 4,504,498</u>	<u>\$ 2,904,255</u>	<u>\$ (1,627,244)</u>

NOTE 12 - EMPLOYEE RETIREMENT BENEFITS

The District contributes to the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System, Public Safety Retirement System for employers with (without) Social Security coverage, Firefighters Retirement System which is for employers with (without) Social Security coverage, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 12 - EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Plan members are required to contribute a percent of their covered salary (all are part may be paid by the employer) to the respective systems to which they belong. The contribution rates in effect at December 31, 2005 were as follows based upon the total salary for the eligible employees. All member contributions were paid by the District in behalf of the employee. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

Utah Public Employees Retirement System

	<u>January - June</u> <u>Contributory Plan</u>	<u>July - December</u> <u>Contributory Plan</u>	
Employee's Portion Paid by Employer	6.00%	6.00%	
Employer's Portion Paid by Employer	<u>7.08%</u>	<u>7.08%</u>	
Total	<u>13.08%</u>	<u>13.08%</u>	
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Salaries Subject to Contribution	<u>\$ 710,677</u>	<u>\$ 618,818</u>	<u>\$ 572,591</u>
District Contributions	<u>\$ 92,957</u>	<u>\$ 76,488</u>	<u>\$ 63,750</u>

In addition, the District contributes 3% of the employees salary and matches up to 6% of the employees' contribution to a 401k savings plan as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Employee paid</u> <u>Contributions</u>	<u>Employer paid</u> <u>for employee</u> <u>Contributions</u>
2005	\$ 58,070	\$ 63,838
2004	49,008	55,344
2003	44,442	50,257

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 13 -RESTRICTED NET ASSETS

The District determined to set aside funds for future projects. Accordingly, as of December 31, 2005, \$2,825,262 the Capital Project fund balance is restricted to be used for new water conservancy projects. In addition, \$1,351,919 of enterprise net assets and \$1,345,813 of capital projects fund equity that is held by trustee as debt reserve has been restricted for debt service.

NOTE 14 - LITIGATION

During the ordinary course of its operation, the district is a party to various claims, legal actions and complaints. In the opinion of the District's management and legal counsel, it is not anticipated that these matters have a material financial impact on the District.

NOTE 15 - OTHER COMMITMENTS

The District has entered into a water supply agreement with the Town of Virgin wherein the District will reimburse the Town for debt service payments made by the Town on bonds that the Town remains liable. During 2005, the District reimbursed the Town \$3,323. The bond issue matures in 2016.

The District is obligated at December 31, 2005, under various uncompleted construction contracts as follows:

<u>Project</u>	<u>Project Authorized</u>	<u>Costs to Date</u>	<u>Costs to Complete</u>
St. George & Washington Canal Co. Pipeline Project	\$ 1,930,649	\$ 206,300	\$ 1,724,349
Dixie Springs 2 million gallon tank	847,204	488,153	359,051
Santa Clara to Ivins Project	1,342,590	1,305,367	37,223
Sand Hollow Wells #19 & #21	635,896	372,247	263,649
Quail Lake Bypass Pipeline	629,969	44,786	585,183
Mall Dr. & Skyline Dr. Pumpstations	1,603,025	1,578,247	24,778
Regional Pipeline Phase I	<u>2,473,569</u>	<u>2,236,772</u>	<u>236,797</u>
	<u>\$ 9,462,902</u>	<u>\$ 6,231,872</u>	<u>\$ 3,231,030</u>

**REQUIRED
SUPPLEMENTARY
INFORMATION**

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		Actual	Variance- Favorable/ (Unfavorable)
	Original	Final		
REVENUE:				
Property Taxes (Note 9)	\$ 6,332,758	\$ 7,353,000	\$ 7,787,846	\$ 434,846
Fees In Lieu of Taxes	570,000	570,000	618,385	48,385
Interest Income	50,000	240,000	282,139	42,139
Other Income	10,000	873,244	871,042	(2,202)
Total Revenues	6,962,758	9,036,244	9,559,412	523,168
EXPENDITURES:				
Capital Expenditures	366,085	366,085	192,374	173,711
New Project Development	617,238	411,834	84,205	327,629
Public Relations	50,000	50,000	27,840	22,160
Payroll	370,880	370,880	285,148	85,732
State Retirement (Note 12)	80,225	80,225	60,457	19,768
Cloud Seeding	35,000	35,000	25,125	9,875
Audit & Accounting	32,500	25,000	20,723	4,277
Telephone	15,210	15,210	7,923	7,287
Insurance and Bond	85,903	85,902	62,709	23,193
Travel & Training	48,035	48,035	23,511	24,524
Office	60,000	60,000	54,242	5,758
Printing	14,040	25,000	23,599	1,401
Miscellaneous	16,168	15,600	547	15,053
Legal	285,000	300,000	298,707	1,293
Auto Expense	11,125	13,000	8,835	4,165
Board Expense	46,640	46,640	39,545	7,095
Debt Service:				
Principle	-	-	-	-
Interest	-	-	-	-
Flood Damage Restoration	-	1,188,166	1,168,506	19,660
Engineering	-	-	-	-
Environmental	-	-	-	-
Conservation	185,500	95,815	37,657	58,158
Utilities	12,343	12,343	6,927	5,416
Building Maintenance	19,080	10,000	6,936	3,064
Total Expenditures	2,350,972	3,254,735	2,435,516	819,219
OTHER FINANCING SOURCES (USES):				
Operating Transfers In (Out) (Note 11)	(4,611,786)	(5,781,509)	(5,781,509)	-
Bond Proceeds	-	-	-	-
Total Other Financing Sources	(4,611,786)	(5,781,509)	(5,781,509)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	1,342,387	1,342,387
Fund Balance at Beginning of Year	3,411,503	3,411,503	3,411,503	-
FUND BALANCE AT END OF YEAR	\$ 3,411,503	\$ 3,411,503	\$ 4,753,890	\$ 1,342,387

The notes to the financial statements are an integral part of this statement.

**OTHER
SUPPLEMENTARY
INFORMATION**

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Virgin River Program

For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		Actual	Variance- Favorable/ (Unfavorable)
	Original	Final		
REVENUE:				
Property Taxes (Note 9)	\$ -	\$ -	\$ -	\$ -
Fees In Lieu of Taxes	-	-	-	-
Interest Income	50,000	50,000	113,320	63,320
Other Income	4,633,000	4,633,000	2,116,242	(2,516,758)
Total Revenues	<u>4,683,000</u>	<u>4,683,000</u>	<u>2,229,562</u>	<u>(2,453,438)</u>
EXPENDITURES:				
Capital Expenditures	1,050,000	-	-	-
New Project Development	2,638,850	2,638,850	1,257	2,637,593
Public Relations	50,000	50,000	3,559	46,441
Payroll	46,950	46,950	39,906	7,044
State Retirement (Note 12)	8,600	8,600	8,886	(286)
Cloud Seeding	-	-	-	-
Audit & Accounting	-	-	-	-
Telephone	1,500	1,500	935	565
Insurance and Bond	13,000	13,000	12,239	761
Travel & Training	11,500	11,500	1,913	9,587
Office	1,500	1,500	1,423	77
Printing	1,100	1,100	316	784
Miscellaneous	5,000	-	-	-
Legal	-	-	-	-
Auto Expense	-	-	-	-
Board Expense	-	-	-	-
Debt Service:				
Principle	-	-	-	-
Interest	-	-	-	-
Bond Issue Costs	-	-	-	-
Operations & Maintenance	105,000	93,000	4,470	88,530
Environmental	750,000	739,425	526,767	212,658
Conservation	-	-	-	-
Utilities	-	-	647	(647)
Building Maintenance	-	-	-	-
Total Expenditures	<u>4,683,000</u>	<u>3,605,425</u>	<u>602,318</u>	<u>3,003,107</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In (Out) (Note 11)	-	-	(1,627,244)	(1,627,244)
Bond Proceeds	-	-	-	-
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>(1,627,244)</u>	<u>(1,627,244)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	1,077,575	-	(1,077,575)
Fund Balance at Beginning of Year	-	-	-	-
FUND BALANCE AT END OF YEAR	<u>\$ -</u>	<u>\$ 1,077,575</u>	<u>\$ -</u>	<u>\$ (1,077,575)</u>

The notes to the financial statements are an integral part of this statement.

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget and actual - Capital Projects Fund

For the Year Ended December 31, 2005

	Budget	Actual	Variance- Favorable/ (Unfavorable)
REVENUE:			
Property Taxes (Note 9)	\$ -	\$ -	\$ -
Fees In Lieu of Taxes	-	-	-
Interest Income	15,000	36,976	21,976
Other Income	7,326,606	5,044,289	(2,282,317)
Total Revenues	<u>7,341,606</u>	<u>5,081,265</u>	<u>(2,260,341)</u>
EXPENDITURES:			
Capital Expenditures	-	-	-
New Project Development	17,403,688	9,698,303	7,705,385
Public Relations	-	-	-
Payroll	-	-	-
State Retirement (Note 12)	-	-	-
Cloud Seeding	-	-	-
Audit & Accounting	-	-	-
Telephone	-	-	-
Insurance and Bond	-	-	-
Travel & Training	-	-	-
Office	-	-	-
Printing	-	-	-
Miscellaneous	-	-	-
Legal	-	-	-
Auto Expense	-	-	-
Board Expense	-	-	-
Debt Service:	-	-	-
Principle	505,000	505,000	-
Interest	1,004,731	1,004,731	-
Bond Issue Costs	-	-	-
Engineering	-	-	-
Environmental	-	-	-
Conservation	-	-	-
Utilities	-	-	-
Building Maintenance	-	-	-
Total Expenditures	<u>18,913,419</u>	<u>11,208,034</u>	<u>7,705,385</u>
OTHER FINANCING SOURCES (USES):			
Operating Transfers In (Out) (Note 11)	2,877,254	4,504,498	1,627,244
Bond Proceeds	-	-	-
Total Other Financing Sources	<u>2,877,254</u>	<u>4,504,498</u>	<u>1,627,244</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(8,694,559)	(1,622,271)	7,072,288
Fund Balance at Beginning of Year	<u>8,779,508</u>	<u>5,793,346</u>	<u>(2,986,162)</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 84,949</u></u>	<u><u>\$ 4,171,075</u></u>	<u><u>\$ 4,086,126</u></u>

The notes to the financial statements are an integral part of this statement.

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets

Budget and Actual - Proprietary Fund

For the Year Ended December 31, 2005

	Budget	Actual	Variance- Favorable/ (Unfavorable)
OPERATING REVENUES:			
Power Sales	\$ 975,000	\$ 1,235,740	\$ 260,740
Water Sales	2,024,300	2,206,306	182,006
Water Availability Fees	248,000	267,062	19,062
Total Revenues	3,247,300	3,709,108	461,808
EXPENSES:			
Depreciation (Note 5)	1,129,900	2,194,268	(1,064,368)
Environmental	15,000	1,883	13,117
Operations & Maintenance	417,500	331,177	86,323
Payroll	450,500	434,036	16,464
State Retirement (Note 12)	100,000	91,716	8,284
Insurance & Bonds	235,000	223,997	11,003
Utilities	333,100	331,010	2,090
Water Fees	20,080	18,442	1,638
Telephone	15,000	12,806	2,194
Auto Expenses	35,000	32,485	2,515
Services Charges	95,735	81,831	13,904
Miscellaneous	67,254	311	66,943
Training & Travel	21,602	14,417	7,185
Total Expenses	2,935,671	3,768,379	(832,708)
Income (Loss) From Operations	311,629	(59,271)	(370,900)
OTHER INCOME (EXPENSES):			
Other Income	155,025	130,598	(24,427)
Interest Income	122,000	109,795	(12,205)
Interest Expense	(1,640,134)	(1,967,526)	(327,392)
Total Other Income (Expenses)	(1,363,109)	(1,727,133)	(364,024)
Net Income (Loss)	(1,051,480)	(1,786,404)	(734,924)
Net Assets at Beginning of Year	25,308,772	25,308,772	-
Transfers In (Out) (Note 12)	2,896,850	2,904,255	7,405
Transfers of Capital Assets (Note 12)	-	3,695,743	3,695,743
Net Assets at End of Year	\$ 27,154,142	\$ 30,122,366	\$ 2,968,224

The notes to financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees
Washington County Water Conservancy District
St. George, Utah

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Washington County Water Conservancy District, as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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This report is intended solely for the information and use of the Board of Trustees, management, and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Hafen, Buckner, Everett & Graff, PC

Hafen, Buckner, Everett & Graff, PC
May 23, 2006

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2005

Federal or Pass-Through Grantor	Federal CFDA #	Expenditures	Major Program
<u>U.S. DEPT. OF AGRICULTURE:</u>			
Passed Through Utah State Dept. of Natural Resources			
Soil and Water Conservation	10.902	\$ 1,811,400	X
<u>U.S. DEPT. OF INTERIOR:</u>			
Passed Through Utah State Dept. of Natural Resources			
Recreation Resource Management	15.225	286,197	
TOTAL FEDERAL EXPENDITURES		\$ 2,097,597	

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A: Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Washington County Water Conservancy District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Trustees
Washington County Water Conservancy District
St. George, Utah

Compliance

We have audited the compliance of the Washington County Water Conservancy District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the District's Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hafen, Buckner, Everett & Graff, PC

HAFEN, BUCKNER, EVERETT & GRAFF, PC
May 23, 2006

WASHINGTON COUNTY WATER CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2002

I. SUMMARY OF AUDITORS' RESULTS

- A. Type of audit report issued on the financial statements: Unqualified opinion.
- B. Reportable conditions in internal control disclosed by the audit: None.
- C. Instances of noncompliance material to the financial statements: None.
- D. Reportable conditions in internal control over major programs disclosed by the audit: None
- E. Type of report issued on compliance for major programs: Unqualified opinion.
- F. Audit findings required to be reported under paragraph .510(a): None.
- G. Major Programs:

<u>Program</u>	<u>CFDA</u>	<u>Amount</u>
Soil and Water Conservation Program	15.615	\$ 1,811,400

- H. Dollar threshold used to distinguish between Type A and B programs, as described in paragraph .520(b): \$300,000.
- I. Washington County Water Conservancy District does not qualify as a low-risk auditee under paragraph .530.

II. FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS*

Finding: None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS AS DEFINED IN PARAGRAPH 510(A)

<u>FINDING</u>	<u>QUESTIONED COSTS</u>
None	None



To the Board of Trustees
Washington County Water Conservancy District
St. George, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Washington County Water Conservancy District for the year ended December 31, 2005 and have issued our report thereon dated May 23, 2006. As part of our audit, we have audited the District's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2005. The District received the following major State assistance program from the State of Utah:

Endangered Species Mitigation Fund (Dept. of National Resources)

Our audit included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- * Public Debt
- * Cash Management
- * Purchasing Requirements
- * Budgetary Compliance
- * Special Districts
- * Truth in Taxation and Property Tax Limitations
- * Other General Compliance Issues

The management of the Washington County Water Conservancy District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the Washington County Water Conservancy District, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility, matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended December 31, 2005.

Hafen, Buckner, Everett & Graff, PC

Hafen, Buckner, Everett & Graff, PC
May 23, 2006